

**Township of Chester
Eaton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2008

Township of Chester
Eaton County, Michigan
March 31, 2008
BOARD OF TRUSTEES

Donald Stall	Supervisor
Sheila Draper	Clerk
Carolyn Walker	Treasurer
H. Devere Cook	Trustee
David Gilding	Trustee

Township of Chester
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Principals

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Chester
Eaton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Chester, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chester, Michigan as of March 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 28, 2008

BASIC FINANCIAL STATEMENTS

Township of Chester
STATEMENT OF NET ASSETS
March 31, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 107,720
Investments	360,096
Receivables	3,230
Prepays	<u>1,458</u>
Total current assets	472,504
Noncurrent assets	
Capital assets, net	<u>167,094</u>
TOTAL ASSETS	639,598
LIABILITIES	
Current liabilities	
Accounts payable	<u>40</u>
NET ASSETS	
Invested in capital assets	167,094
Unrestricted	<u>472,464</u>
TOTAL NET ASSETS	<u><u>\$ 639,558</u></u>

See accompanying notes to financial statements.

Township of Chester

STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 107,214	\$ 12,644	\$ -	\$ (94,570)
Public safety	33,462	2,130	-	(31,332)
Public works	25,421	-	2,648	(22,773)
Health and welfare	3,403	-	-	(3,403)
Community and economic development	1,995	-	-	(1,995)
Recreation and cultural	2,000	-	-	(2,000)
Total governmental activities	<u>\$ 173,495</u>	<u>\$ 14,774</u>	<u>\$ 2,648</u>	(156,073)
General revenues:				
Property taxes				44,337
State shared revenue				122,326
Investment earnings				18,936
Other				<u>554</u>
Total general revenues				<u>186,153</u>
Change in net assets				30,080
Net assets, beginning of the year				<u>609,478</u>
Net assets, end of the year				<u>\$ 639,558</u>

See accompanying notes to financial statements.

Township of Chester

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2008

	General	Nonmajor Cemetery Perpetual Care	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 107,720	\$ -	\$ 107,720
Investments	347,927	12,169	360,096
Accounts receivable	630	-	630
Taxes receivable	2,600	-	2,600
Prepays	1,458	-	1,458
TOTAL ASSETS	\$ 460,335	\$ 12,169	\$ 472,504
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 40	\$ -	\$ 40
FUND BALANCES			
Reserved for			
Perpetual care	-	12,169	12,169
Prepays	1,458	-	1,458
Unreserved			
Designated for subsequent year's expenditures	14,532	-	14,532
Undesignated	444,305	-	444,305
TOTAL FUND BALANCES	460,295	12,169	472,464
TOTAL LIABILITIES AND FUND BALANCES	\$ 460,335	\$ 12,169	\$ 472,504

See accompanying notes to financial statements.

Township of Chester

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2008

Total fund balances - governmental funds \$ 472,464

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 250,619
Accumulated depreciation is	<u>(83,525)</u>

Capital assets, net	<u>167,094</u>
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Net assets of governmental activities	<u><u>\$ 639,558</u></u>
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See accompanying notes to financial statements.

Township of Chester

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2008

	General	Nonmajor Cemetery Perpetual Care	Total Governmental Funds
REVENUES			
Taxes	\$ 47,021	\$ -	\$ 47,021
Intergovernmental	124,974	-	124,974
Charges for services	11,880	-	11,880
Interest and rents	18,612	534	19,146
Other	554	-	554
TOTAL REVENUES	203,041	534	203,575
EXPENDITURES			
Current			
General government	98,075	-	98,075
Public safety	33,462	-	33,462
Public works	25,421	-	25,421
Health and welfare	3,403	-	3,403
Community and economic development	1,995	-	1,995
Recreation and cultural	2,000	-	2,000
TOTAL EXPENDITURES	164,356	-0-	164,356
NET CHANGE IN FUND BALANCES	38,685	534	39,219
Fund balances, beginning of year	421,610	11,635	433,245
Fund balances, end of year	\$ 460,295	\$ 12,169	\$ 472,464

See accompanying notes to financial statements.

Township of Chester

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Net change in fund balances - total governmental funds **\$ 39,219**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 1,500	
Depreciation expense	<u>(10,639)</u>	
Excess of depreciation expense over capital outlay		<u>(9,139)</u>

Change in net assets of governmental activities **\$ 30,080**

See accompanying notes to financial statements.

Township of Chester

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township of Chester, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Eaton County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and planning.

The financial statements of the Township have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Township governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Township's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Chester. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Township of Chester contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund and nonmajor fund. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major fund of the Township is:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. The budget was not amended during the current year.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and money market accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. Cash, cash equivalents, and investments are recorded at market value.

7. Property Tax

The Township of Chester bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Eaton County Treasurer on March 1. The Eaton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service. For the year ended March 31, 2008, the Township levied 0.8785 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2007 levy for property within the Township was \$50,716,900.

8. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	15 - 40 years
Equipment	5 years

9. Comparative Data

Comparative data has not been presented in the financial statements due to the Township's requirement to prepare audited financial statements only once every two years.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2008, the carrying amount of the Township's deposits was \$467,816 and the bank balance was \$465,032. As of March 31, 2008, the Township accounts were fully insured by the FDIC for \$465,032.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2008, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designing its portfolio with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Township of Chester
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk

The Township will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008, was as follows:

	Balance April 1, 2007	Additions	Deletions	Balance March 31, 2008
Buildings and improvements	\$ 232,396	\$ 1,500	\$ -	\$ 233,896
Equipment	<u>16,723</u>	<u>-</u>	<u>-</u>	<u>16,723</u>
Totals at historical cost	249,119	1,500	-0-	250,619
Less accumulated depreciation for:				
Buildings and improvements	(69,037)	(7,294)	-	(76,331)
Equipment	<u>(3,849)</u>	<u>(3,345)</u>	<u>-</u>	<u>(7,194)</u>
Total accumulated depreciation	<u>(72,886)</u>	<u>(10,639)</u>	<u>-0-</u>	<u>(83,525)</u>
Capital assets, net	<u>\$ 176,233</u>	<u>\$ (9,139)</u>	<u>\$ -0-</u>	<u>\$ 167,094</u>

Depreciation expense was charged to the following governmental activities:

General government	<u>\$ 10,639</u>
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NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Township has set aside for specific purposes.

The following are the fund balance reserves as of March 31, 2008:

General Fund	
Reserved for prepaids	<u>\$ 1,458</u>
Nonmajor governmental fund	
Reserved for perpetual care	<u>\$ 12,169</u>

Township of Chester
NOTES TO FINANCIAL STATEMENTS
March 31, 2008

NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following is the fund balance designation as of March 31, 2008:

General Fund
Designated for subsequent year's expenditures \$ 14,532

NOTE E: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including liability, wrongful acts, auto, crime, inland marine, and property losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to a special assessment to make up the deficiency. The Township has not been informed of any special assessments being required.

The Township is exposed to various risks of loss for workers' compensation claims for which the Township carries commercial insurance.

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the required supplementary information to the financial statements, the Township's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level.

During the year ended March 31, 2008, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Supervisor	\$ 7,812	\$ 7,819	\$ 7
Cemetery	11,500	19,638	8,138
Community and economic development			
Planning and zoning	1,500	1,995	495

REQUIRED SUPPLEMENTARY INFORMATION

Township of Chester

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current tax levy	\$ 43,170	\$ 43,170	\$ 44,337	\$ 1,167
Administrative fees	2,700	2,700	2,684	(16)
Total taxes	45,870	45,870	47,021	1,151
Intergovernmental - State				
State shared revenue	117,000	117,000	122,326	5,326
Metro right of way	2,650	2,650	2,648	(2)
	119,650	119,650	124,974	5,324
Charges for services				
Fire runs	1,500	1,500	2,130	630
Cemetery lots	500	500	1,000	500
Grave openings	-	-	8,750	8,750
Total charges for services	2,000	2,000	11,880	9,880
Interest and rents				
Interest	12,000	12,000	18,402	6,402
Rent	300	300	210	(90)
Total interest and rents	12,300	12,300	18,612	6,312
Other				
Reimbursements	-	-	537	537
Miscellaneous	-	-	17	17
Total other	-0-	-0-	554	554
TOTAL REVENUES	179,820	179,820	203,041	23,221
EXPENDITURES				
General government				
Township board	2,160	2,160	1,848	312
Supervisor	7,812	7,812	7,819	(7)
Clerk	12,100	12,100	10,607	1,493
Board of review	1,200	1,200	1,051	149
Treasurer	13,300	13,300	13,122	178
Assessor	9,000	9,000	9,000	-0-
Elections	4,000	4,000	2,378	1,622
Township hall	8,350	8,350	6,968	1,382
Cemetery	11,500	11,500	19,638	(8,138)
Professional services	20,000	20,000	17,282	2,718
Other	20,370	20,370	8,362	12,008
Total general government	109,792	109,792	98,075	11,717

Township of Chester

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public safety				
Fire protection	\$ 35,000	\$ 35,000	\$ 33,462	\$ 1,538
Public works				
Highways, streets, and bridges	37,000	37,000	23,454	13,546
Drains at large	2,500	2,500	1,967	533
Total public works	39,500	39,500	25,421	14,079
Health and welfare				
Ambulance	2,310	2,310	2,193	117
Senior center and programs	1,210	1,210	1,210	-0-
Total health and welfare	3,520	3,520	3,403	117
Community and economic development				
Planning and zoning	1,500	1,500	1,995	(495)
Recreation and cultural				
Library	2,000	2,000	2,000	-0-
TOTAL EXPENDITURES	191,312	191,312	164,356	26,956
NET CHANGE IN FUND BALANCE	(11,492)	(11,492)	38,685	50,177
Fund balance, beginning of year	421,610	421,610	421,610	-0-
Fund balance, end of year	\$ 410,118	\$ 410,118	\$ 460,295	\$ 50,177

Principals

Dale J. Abraham, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

To the Members of the Township Board
Township of Chester
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chester, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements, and have issued our report thereon dated August 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Township prepares monthly financial reporting at the fund level. The annual audited financial statements for the year ended March 31, 2008 for the Township required few audit adjustments.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The staff at Chester Township understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Township has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Township not developing a fraud risk assessment and monitoring program it is unable to assess the Township's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Township develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

CAPITAL ASSET THRESHOLD POLICY

During the course of our audit and through discussions with management, it was noted that the Township has not adopted a policy to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

We recommend the Board adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Township's option, this policy may be applied retroactively to the current asset list or it may be applied for future purchases only.

MANAGEMENT DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has determined that it is necessary for all governmental entities to supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Township has not presented a management's discussion and analysis.

It has historically been common for many smaller governments to omit a MD&A. As a result, management's understanding and views of the financial statements are not readily available for reader's.

We are communicating these circumstances as required by professional standards. We recommend the Township Board consider the benefits of preparing a MD&A as well as the related costs to do so.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters.

BUDGETS

As noted in the financial statements, some of the activities of the Township exceeded the amounts appropriated for the General Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The Act also prohibits the Township from appropriating more funds for expenditure than is available through current revenue sources and any accrued surplus or deficit from previous years.

We recommend the Township monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the members of the Board of the Township of Chester, others within the Township, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 28, 2008